SHULLY'S INDUSTRIES LIMITED

EXECUTIVE OFFICES:

73 WINGOLD AVENUE, TORONTO 19, ONTARIO

DIRECTORS:

MAURICE SHULLY
HAROLD IRWIN SHULLY
GILBERT JAY SHULLY
RAPHAEL DAVID WOLFE
LEON ELLIOT WEINSTEIN
ALBERT SHIFRIN, Q.C.
LIONEL B. WHITE

OFFICERS:

MAURICE SHULLY,
President

HAROLD IRWIN SHULLY,
Vice-President and Secretary

GILBERT JAY SHULLY,
Vice-President and Treasurer

MAURICE BRONNER,
Comptroller

HARRY HIBLOOM,
Assistant Comptroller

TRANSFER AGENTS AND REGISTRAR:

GUARANTY TRUST COMPANY OF CANADA

AUDITORS:

PAPE, STROM, SHERMAN & LAVINE

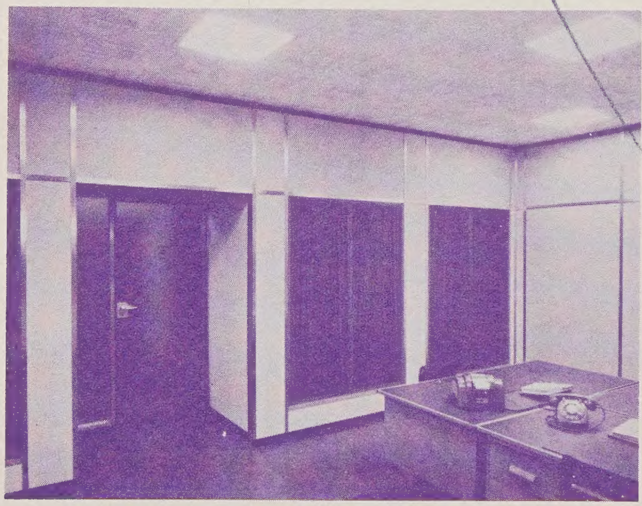
BANKERS:

CANADIAN IMPERIAL BANK OF COMMERCE

AR22

CLOISALL

CANADA



CLOISALL offers the widest possible range of wall partitioning and finishes which may be snapped out and interchanged at will.

SHULLY'S INDUSTRIES LIMITED

INTERIM REPORT
FOR THE SIX MONTHS
ENDED JULY 31, 1968

INTERIM REPORT TO SHAREHOLDERS

It is a pleasure to present the operating results for the six months ended July 31, 1968. All Divisions contributed to making this the best semi-annual report to date. Sales improved 8%; Profits improved 62.3%. There are indications that this trend towards higher sales and earnings will likely continue into the second half of the year.

In my last report, the arrangements with Cloisall International was described. Since then Shully's Industries has organized a strong sales and installation division to service the growing requirements in Ontario for demountable and reusable wall partitioning. For the balance of Canada, Shully's have sub-licensed to Glaverbel (Canada) Limited sole Canadian rights (Ontario excepted) for the manufacture and sale of this world patented system of wall partitioning. Glaverbel are one of the world's largest flat-glass manufacturers and distributors. A Belgium based company, they have warehouse and distribution centres throughout Canada including architectural representation and are involved to some degree in most major construction programs in Canada.

On behalf of the Board of Directors

MAURICE SHULLY,
President

SHULLY'S INDUSTRIES LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

FOR SIX MONTHS ENDED JULY 31, 1968

	1968	1967
Sales	$4,012,142	$3,713,948
Cost of Sales, Selling and Administrative Expenses (Before undernoted items)	$3,771,171	$3,522,936
Provision for depreciation and amortization	28,923	27,147
Debenture Interest	18,391	18,837
Bank Interest	31,288	29,649
	$3,849,773	$3,598,569
Income before taxes	$ 162,369	$ 115,379
Income taxes	82,800	59,500
Net Income	$ 79,569	$ 55,879
Earnings per share (after preferred dividends of $18,750)	18.5¢	11.4¢

SOURCE AND APPLICATION OF FUNDS

FOR SIX MONTHS ENDED JULY 31, 1968

	1968	1967
Source of Funds		
Net Income	$ 79,569	$ 55,879
Depreciation, not requiring a cash outlay	28,923	27,147
Other	3,236	3,235
Funds provided from operations	$ 111,728	$ 86,261
Increase (Decrease) in unearned finance charges	(7,516)	14,932
	$ 104,212	$ 101,193
Application of Funds		
Acquisition of fixed assets	$ 6,913	$ 4,754
Redemption of debentures	1,531	8,400
Special refundable tax		8,831
Dividends	16,437	16,264
Deferred Income Taxes	4,000	
	$ 28,881	$ 38,249
Increase in working capital	$ 75,331	$ 62,944
Working capital at beginning of period	1,406,507	1,239,245
Working capital at end of period	$1,481,838	$1,302,189

All figures subject to independent year-end audit

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SHULLY'S INDUSTRIES LIMITED

Shully's Industries Limited and wholly owned subsidiaries form what is probably one of Canada's smallest conglomerate organizations. Originally founded to acquire a family owned fuel oil and heating business, the Company subsequently acquired facilities for manufacture of aluminum products such as doors, siding and awnings. This business has been expanded to include manufacture of steel "Storall" garden utility shelters and special storage sheds for snowmobiles and boats.

The fuel oil division, which is probably the largest Metropolitan Toronto fuel oil distributor with annual throughput of about 16,000,000 gallons, also installs and services domestic and industrial heating equipment.

Adsa Acceptance Corporation, operating since 1962, is an internal finance company servicing only the customers of Shully's Industries. It is believed that business generated by Adsa Acceptance now makes it the most important subsidiary in terms of profit contribution.

Shully's recently acquired Canadian rights to "Cloisall", a European designed system of movable partitioning that can be mounted and demounted without special construction or damage to existing surfaces. The Canadian rights to "Cloisall" have sub-licensed to another company but exclusive distributorship for Ontario have been retained.

Management of Shully's is aware of the need for continuous product expansion and/or acquisition. This has been demonstrated by the acquisition of a group of three privately owned aluminum building products supply companies which was recently agreed to on the basis of $350,000 and 50,000 common shares. These three private companies earned approximately $260,000 in pretax profits in the fiscal year ending July 31, 1968.

Metal fabricating is a highly competitive field where the lower end of the scale is dominated by one-man operations and the upper end by primary producers. Shully's position in the middle is broad enough to avoid the wide seasonal variances experienced by the one-man operator, but small enough to be selective in choosing better margined products for manufacture.

The fuel oil operation recently passed through a difficult period following the introduction of "free service" as offered by the major oil companies. Price increases have compensated for the extra costs and have allowed profit margins to recover to levels above previous marks.

The price of Shully's Industries shares have more than doubled in the past four weeks. Action reflects the removal of conversion privilege attached to the preference shares, the increase in per share earnings (to 18.5 cents from 11.4 cents) for the six months ending in July, and an upward re-evaluation of the price-earnings multiple. At $12.00 the shares are trading at about 16 times estimated earnings of 76 cents for the fiscal year ending January 1969. If earnings of acquisitions were considered for full year, overall earnings would be 86 cents per share for a 14 multiple. Earnings for 1969-1970 will reflect a full year's operation of the acquisitions and Cloisall.

Financial Summary (000,000 omitted)	Year Ended January 31 1968	1967	1966	1965
Sales	$7,883	$7,104	$6,401	$6,216
Income before Taxes	$ 389	$ 269	$ 284	$ 284
Income Taxes	$ 196	$ 132	$ 146	$ 107
Net Profit	$ 194	$ 136	$ 138	$ 136
Earnings/Share	42½¢	30¢	31¢	30¢
Operating Profit Margin	6.9%	6.0%	6.6%	5.9%
Net Profit Margin	2.5%	1.9%	2.2%	2.2%
Return on Invested Capital	16.5%	12.6%	12.3%	12.3%

CORPORATE NEWS IN BRIEF

TRADERS GROUP LTD. - for the six month period ending June 30, 1968 reported net profit of $2,873,294 (57 cents per share after prior deductions) compared to $2,653,234 (52 cents a share) for same period in 1967.

While these earnings are for a period when interest rates were at a peak, the gradual reduction in rates through the second half would suggest that interest rate sensitive companies may begin to report improved earnings.

The finance companies, who not only faced the problem of rolling-over short term borrowing at higher costs, suffered at the hands of a wary public when several weak finance companies collapsed.

Through this period of uncertainty and difficulty, the financial operations of Traders Group were affected by: a reduction in volume of notes, mortgages and accounts receivable outstanding by maturity while maximum generation of new business was held up due to lack of funds; and interest costs - despite a drop in outstanding debt - remained disproportionately high as what new financing was managed was done at escalated interest rates. A reduction in interest rates would have the effect of increasing the spread - the difference between cost of borrowing and lending money - would increase. Assuming a 1% increase in the spread would mean approximately $4.0 million in pre-tax profits or about $2 million after taxes.

Traders' other operations, generally classed as insurance and industrial--without which overall earnings could have been lower--also stand to benefit from lower interest rates and easier availability of money.

BOW VALLEY INDUSTRIES LTD. - the western Canadian conglomerate of aviation, drilling and manufacturing - for the fiscal year ending May 31, has earnings on a "pooling of interest basis" amounting to $1,264,774 (including $400,000 in extraordinary items) or 52 cents a share. Revised for comparative purposes, 1967 net profits were $1,591,938 (with $239,000 in extraordinary items) or 62 cents a share.

During the past fiscal year Bow Valley acquired: Flame-Master Ltd., a manufacturer of propane and gas heating units; T. Connors Diamond Drilling Co. Ltd., a mine contract driller; and Bullock Wings & Rotors Ltd., a helicopter lessor. These companies were variously acquired through exchange of shares and/or for cash.

Early this calendar year Bow Valley started extensive seismic activity on portions of the 50,000,000 acres of land assigned to the Panarctic Oils Ltd. - the joint government and oil industry venture for exploring the Arctic for oil and gas. A multi-well drill programme is to begin early next year.

Apart from the Panarctic participation Bow Valley also acquired an interest in 709,594 acres of land on share and offshore Mackenzie Delta in the approximate area where exploratory wells are to be drilled by two major oil companies within the next year.

CANADA SAVINGS BONDS - to be dated Nov. 1, 1968 and maturing Nov. 1, 1982 will be available for purchase on October 7th. Interest rate will be 5.75% in the first year, 6.50% in second year, 6.75% for each of next three years, and 7% in each of the last nine years or averaging 6.75% if held to maturity. This year's issue continues the feature begun two years ago whereby investors have the option of compound interest, by which they may leave their coupons uncashed in order to earn extra interest. In effect, a purchaser of this series can get back after fourteen years $250.00 ($100 original investment plus $95.50 in regular interest plus $54.50 in compound interest) for each $100 invested today.

REVENUE PROPERTIES COMPANY LIMITED has filed registration of 800,000 common shares with the U.S. Securities and Exchange Commission. Of the total, 500,000 shares are from the treasury and 300,000 from principals. Company has applied for listing on the American Stock Exchange upon completion of registration.